

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

THE APPLICATION OF THE BARNESBURG)	
WATER ASSOCIATION, INC., OF PULASKI)	
COUNTY, KENTUCKY, FOR (1) A CERTIFICATE)	
OF PUBLIC CONVENIENCE AND NECESSITY)	
AUTHORIZING AND PERMITTING SAID WATER)	
DISTRICT TO CONSTRUCT ADDITIONAL WATER)	
LINE, STORAGE TANKS, PUMP STATIONS)	
AND RELATED FACILITIES TO SERVE NEW)	CASE NO. 8745
AND ADDITIONAL CUSTOMERS, AND (2) FOR)	
APPROVAL OF THE WATER RATES PROPOSED)	
TO BE CHARGED BY THE ASSOCIATION TO)	
CUSTOMERS OF THE ASSOCIATION AND (3))	
APPROVAL OF THE PROPOSED PLAN OF)	
FINANCING THE PROPOSED ADDITIONS TO)	
SAID WATER SYSTEM)	

O R D E R

On December 15, 1982, Barnesburg Water Association, Inc., ("Barnesburg") filed an application with this Commission requesting authorization to adjust its water service rates and to construct improvements to its water system, and for approval of proposed financing for the project. On February 24, 1983, the Commission issued an Interim Order granting a certificate of public convenience and necessity for the waterworks improvement project and approval of the financing. The rates proposed by Barnesburg would result in an increase in revenues of approximately \$3,849 annually, an increase of 4.5 percent. Based on the determination herein no increase in revenues has been allowed.

A public hearing was held on January 26, 1983, in the Commission's offices in Frankfort, Kentucky, to consider the waterworks improvements project and the proposed financing. There were no intervenors and no protests were entered. A public hearing on Barnesburg's proposed rate adjustment was to be scheduled at a later date. However, in information filed on March 1, 1983, Barnesburg requested that any further action in this case be taken without another formal hearing. No formal hearing was scheduled concerning the proposed rates and Orders requesting additional information were issued. Barnesburg did not respond to the Order issued on April 26, 1983. A hearing was scheduled for June 14, 1983, for Barnesburg to show cause why it should not file the information requested in the Order of April 26. Barnesburg advised the Commission that it would file the information requested in the Order of April 26 and further requested that the hearing be cancelled. Barnesburg filed the information on June 17, 1983, and the hearing was cancelled.

COMMENTARY

Barnesburg is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky, and serves approximately 202 customers in Pulaski County.

TEST PERIOD

Barnesburg proposed and the Commission has accepted the 12-month period ending December 31, 1982, as the test period for determining the reasonableness of the rates

approved herein. Appropriate pro forma adjustments have been included for rate-making purposes.

REVENUES AND EXPENSES

Barnesburg filed an "Operating-Budget" in Exhibit F of its application. The amounts listed for 1982 on this exhibit do not agree with actual test period amounts from Barnesburg's 1982 annual report nor with the test period income statement filed on April 5, 1983. Also included in this exhibit is a projected income statement for the first full year of operation of the system subsequent to completion of the waterworks improvements project. No basis or explanation has been presented concerning the derivation of these projected amounts. The Commission finds this exhibit to be an inadequate and improper representation of actual test period operations. The projected costs have not been supported sufficiently to meet the known and measurable criterion. Therefore, the Commission has adopted the operating statement contained in the 1982 annual report as the proper representation of the historical test period. The following modifications have been made to the test period to reflect actual and anticipated operating conditions:

Operating Revenue

The record reflects that the current waterworks improvements project will result in the addition of 267 new customers to Barnesburg's system. The Commission has allowed an adjustment to increase test period operating revenue by \$51,327. This adjustment is based on the actual usage of the

existing customers during the test period at the rates in effect at the end of the test period and the proposed usage of the 267 customers to be added to the system as set out in the information filed on June 17, 1983.

Purchased Water

Barnesburg reflects a line loss for the test period of 18 percent. The Commission has an established policy for rate-making purposes of disallowing the cost associated with line loss in excess of 15 percent. Therefore, the Commission has determined that an adjustment of \$557 should be made to exclude the cost associated with the line loss in excess of 15 percent.

An adjustment of \$16,270 has been made to increase purchased water costs in recognition of the addition of 267 new customers to the system. This adjustment is based on the proposed usage adopted in determining the revenue adjustment herein and the rate from Barnesburg's supplier at the end of the test period. These two adjustments result in total purchased water costs of \$30,243.

Depreciation

The waterworks improvements project as submitted reflects that \$887,500 of capital expenditures will be added to Barnesburg's plant accounts upon completion of this project. An adjustment of \$22,266 has been made to increase depreciation expense based on the composite depreciation rate of 2.5 percent during the test period and total plant in

service of \$1,159,577. This adjustment results in total depreciation expense of \$28,989.

Barnesburg reported depreciation expense for the test period based on the total utility plant in service. It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of the original cost of the plant in service less contributions in aid of construction. The adjusted total of contributions in aid of construction after consideration of additional grants to be received for the waterworks improvements project and the refund of certain tap-on fees for customers which cannot presently be served is \$698,550. The Commission has determined that the adjusted amount for contributions in aid of construction represents approximately 60 percent of the total plant in service after consideration of the additional capital expenditures. Therefore, depreciation expense as adjusted above has been reduced by \$17,393 to exclude depreciation on assets purchased with contributions in aid of construction.¹ After consideration of these adjustments total test period depreciation expense is \$11,596.

The evidence of record reflects that Barnesburg will incur debt of \$250,000 at 5 percent interest and debt of \$130,000 at 7 3/8 percent interest in connection with the waterworks improvements project. The debt will be repaid

¹

Adjusted Contributions In Aid of Construction	\$698,550
Adjusted Plant In Service	\$1,159,577 = 60%

Adjusted Depreciation Expense \$28,989 x .60 = \$17,393

over a 40-year period. The Commission has made an adjustment to increase test period interest expense by \$16,490 to recognize the additional interest expense to be incurred due to the additional debt obligations and the annual interest on long-term debt outstanding at the end of the test period. These adjustments result in total pro forma interest expense of \$21,294.

After consideration of the aforementioned adjustments the Commission finds that Barnesburg's test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenue	\$34,804	\$51,327	\$86,131
Operating Expenses	<u>32,302</u>	<u>20,586</u>	<u>52,888</u>
Operating Income	\$ 2,502	\$30,741	\$33,243
Interest on Long Term Debt	4,804	16,490	21,294
Interest Income	<u>1,150</u>	<u>-0-</u>	<u>1,150</u>
Net Income	<u><\$1,152></u>	<u>\$14,251</u>	<u>\$13,099</u>

REVENUE REQUIREMENTS

Barnesburg's debt service based on the average principal and interest payments due within the next 5 years is \$28,688. Its bond ordinances require a 1.2 debt service coverage ratio. The adjusted test period operating statement reflects operating income of \$33,243, which provides a debt service coverage ratio of 1.199. In order to improve Barnesburg's debt coverage ratio to 1.2, additional revenues of \$33 would be required. However, the Commission is of the opinion that the amount of increase is de minimus and would not justify the cost of implementing new rates. The adjusted

operating income of Barnesburg is adequate and will not adversely affect its financial condition. Therefore, no increase in rates should be allowed herein. Based on adjusted test period results, total revenues of \$86,131 will produce operating income of \$33,243 which, after considering interest income of \$1,150, will be sufficient to allow Barnesburg to pay its operating expenses, meet its annual debt service obligations, and provide a reasonable surplus.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates currently in effect are fair, just and reasonable rates for Barnesburg in that they will produce annual revenues of \$86,131. This revenue, along with interest income of \$1,150, will be sufficient to meet Barnesburg's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

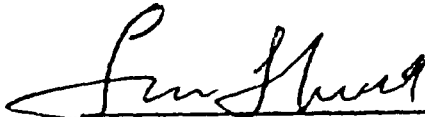
2. The rates proposed by Barnesburg would produce revenue in excess of that found reasonable herein and should be denied.

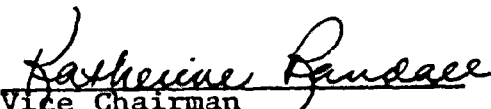
IT IS THEREFORE ORDERED that the rates authorized in Case No. 7334 are the fair, just and reasonable rates for Barnesburg and shall remain in effect.

IT IS FURTHER ORDERED that the rates proposed by
Barnesburg be and they hereby are denied.

Done at Frankfort, Kentucky, this 18th day of August, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary